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MEMORANDUM

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2011 MAY -3 P 3:44

TO: Docket Control

FROM: Steven M. Olea  
Director  
Utilities Division

AZ CORP COMMISSION  
DOCKET CONTROL

DATE: May 3, 2011

RE: STAFF REPORT FOR VALLE VERDE WATER COMPANY'S  
APPLICATION FOR APPROVAL OF LONG-TERM FINANCING FOR  
APPROVAL OF A TRUCK LOAN THE COMPANY HAS IN PLACE  
DOCKET NO. W-01431A-11-0007

Attached is the Staff Report for the Valle Verde Water Company's application for authority to borrow funds for a truck loan already in place from Citizen's Automobile Finance. Staff recommends approval of the financing application.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before May 17, 2011.

SMO:BCA:tdp/kdh

Originator: Brendan C. Aladi

Arizona Corporation Commission  
DOCKETED

MAY 3 2011

DOCKETED BY  
*[Signature]*

Service List for: Valle Verde Company  
Docket No. W-01431A-11-0007

Ms. Bonnie O'Connor, Interim Manager  
Valle Verde Water Company  
Post Office Box 85160  
Tucson, Arizona 85754

**STAFF REPORT  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION**

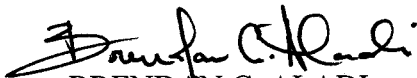
**VALLE VERDE WATER COMPANY  
DOCKET NO. W-01431A-11-0007**

**APPLICATION FOR AUTHORITY  
TO  
INCUR LONG-TERM INDEBTEDNESS**

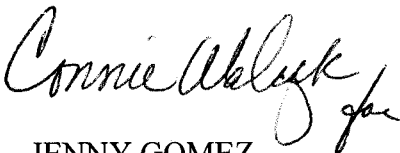
**MAY 03, 2011**

## STAFF ACKNOWLEDGMENT

The Staff Report for Valle Verde Water Company, Docket No. W-01431-11-0007 is the responsibility of the Staff members listed below. Brendan C. Aladi is responsible for the financial analysis. Dorothy Hains is responsible for the engineering review. Jenny Gomez was responsible for reviewing the Arizona Corporation Commission's records on the Company and reviewing customer complaints filed with the Commission.

  
BRENDAN C. ALADI  
PUBLIC UTILITIES ANALYST III

  
DOROTHY HAINS, P.E.  
UTILITIES ENGINEER

  
JENNY GOMEZ  
CONSUMER ANALYST I

**EXECUTIVE SUMMARY  
VALLE VERDE WATER COMPANY  
DOCKET NO. W-01431A-11-0007**

On January 6, 2011, Valle Verde Water Company ("Valle Verde" or "Company"), filed a financing application with the Arizona Corporation Commission ("Commission") asking for authorization of a truck loan the Company has in place. Valle Verde is owned by the Estate of William F. Randall.

Valle Verde is a Class "C" Arizona public service corporation that owns and provides potable water service to approximately 800 customers near Nogales, Arizona in Santa Cruz County. The system fell into financial and operational difficulties and became non-compliant with several Arizona Department of Environmental Quality ("ADEQ") rules. In September 2007, the Commission entered into an agreement with Southwestern Utility Management ("SUM") to act as the interim manager of Valle Verde. When SUM took over management of the Company, Valle Verde did not own any transportation equipment. On February 25, 2008, Valle Verde obtained a \$15,238, 5-year, 7.14 percent loan from Citizens Automobile Finance to purchase a truck.

On September 28, 2010, the Commission issued Decision No. 71899, which ordered the Company to file a financing application with the Commission for authorization of the truck loan.

Staff calculated a pro forma debt service coverage ("DSC") ratio of 1.68 using the \$57,295 operating income authorized in Decision No. 71899. The DSC results show that cash flow from operations is sufficient to cover all obligations. The Company's provided pro forma revenue for the test year ended December 31, 2010 would produce \$15,340 in operating income and a DSC ratio of 1.26. The DSC results show that cash flow from operations is sufficient to cover all obligations.

Staff recommends retroactive authorization of a 5-year amortizing loan in an amount not to exceed \$15,238 at a 7.14 percent interest rate from Citizens Automobile Finance.

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## **SCHEDULES**

FINANCIAL ANALYSIS .....	BCA-1
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## **INTRODUCTION**

On January 6, 2011, Valle Verde Water Company ("Valle Verde" or "Company") filed a financing application with the Arizona Corporation Commission ("Commission") requesting authorization of a truck loan that the Company already has in place.

## **CONSUMER SERVICES**

Staff reviewed the Commission's records for the period beginning January 1, 2008, to April 21, 2011, and found four complaints filed for explanation of tariff, installation delays and two for outage or interruptions. The complaints have been resolved and closed.

## **PUBLIC NOTICE**

On January 14, 2011, the Company filed an affidavit of publication verifying public notice of its financing application. The Company published notice of its financing application in the *Nogales International Newspaper* on January 7, 2011. The *Nogales International Newspaper* is printed and published two days a week in the City of Nogales, County of Santa Cruz, State of Arizona. The affidavit of publication is attached along with a copy of the Notice.

## **BACKGROUND**

Valle Verde is a Class "C" Arizona public service corporation engaged in the business of providing potable water service to approximately 800 customers near the City of Nogales, Arizona, in Santa Cruz County. Valle Verde's current rates and charges were set in Decision No. 71899, issued September 28, 2010. Valle Verde is owned by the Estate of William F. Randall. Upon Mr. Randall's death, the system fell into financial and operational difficulties and became non-compliant with several Arizona Department of Environmental Quality rules. In September 2007, the Commission entered into an agreement with Southwestern Utility Management ("SUM") to act as the interim manager of Valle Verde.

When SUM took over management of the Company, Valle Verde did not own any transportation equipment. On February 25, 2008, Valle Verde obtained a \$15,238, 60-month, 7.14 percent loan from Citizens Automobile Finance to purchase a truck.

On July 17, 2009, SUM filed an application on behalf of Valle Verde for a rate increase and financing approval, which were approved in Decision No. 71899. The Decision authorized a \$1,278,238 Water Infrastructure Finance Authority of Arizona loan needed for capital improvements. The Decision also ordered the Company to file a financing application with the Commission for authorization of the truck loan that was already in place.

## **COMPLIANCE**

A check of the compliance database indicates that there are currently no delinquencies for Valle Verde.

## **PURPOSE AND DESCRIPTION OF THE REQUESTED FINANCING**

The purpose of the loan is to fund a truck loan that the Company already has in place. The Company requests that the Commission authorize the financing in an amount of \$18,216, 5-year, 7.14 percent per annum. However the amount financed by Valle Verde was \$15,238.19 from Citizens Automobile Finance. The amount requested by the Company represents the total of all payments including principal and interest.

## **ENGINEERING ANALYSIS**

The Staff Engineering Memorandum is attached. Staff reviewed the Company's application and concludes that the purchase of the truck was appropriate and its purchase price reasonable. Staff makes no "used and useful" determination of the truck and no particular treatment should be inferred for rate making or rate base purposes in the future.

## **FINANCIAL ANALYSIS**

Staff's analysis is shown in Schedule BCA-1. Column [A] of the schedule reflects the Company's historical financial information for the year ended December 31, 2008 (rate case test year). Column [B] presents pro forma financial information that modifies Column [A] to reflect a \$1,278,238, 20-year amortizing loan at 4.50 percent per annum, which represents the Company's loan authorized in Decision 71899 issued September 28, 2010. Column [C] presents pro forma financial information that modifies Column [B] to reflect a \$15,238.19, 5-year amortizing loan at 7.14 percent per annum, which represents the Company's new loan authorization request.

Debt service coverage ("DSC") ratio represents the number of times internally generated cash will cover required principal and interest payments on short-term and long-term debt. A DSC greater than 1.0 indicates that cash flow from operations is sufficient to cover debt obligations. A DSC less than 1.0 means that debt service obligations cannot be met by cash generated from operations and that another source of funds is needed to avoid default.

Schedule BCA-1 column [A] shows that for the year ended December 31, 2008, a meaningful DSC cannot be calculated because the Company had no outstanding debt. An analysis reflecting a fully-drawn \$1,278,238, 20-year amortizing loan at 4.5 percent and a \$15,238.19, 5-year amortizing loan at 7.14 percent results in a pro forma 1.68 DSC, as shown in Schedule BCA-1 Column [B]. Since this pro forma DSC is greater than 1.0, it shows that Valle Verde would have adequate cash flow from operations to cover all debt obligations.



## **CONCLUSION AND RECOMMENDATIONS**

Staff concludes that the purchase of the truck was appropriate and its purchase price was reasonable. However, no "used and useful" determination of the project item was made and no particular treatment should be inferred for rate making or rate base purposes in the future.

Staff concludes that issuance of the proposed debt financing for the purposes stated in the application is within Valle Verde's corporate powers and would not impair its ability to provide services and would be consistent with sound financial practices.

Staff recommends retroactive authorization of a 5-year amortizing loan in an amount not to exceed \$15,238 at a 7.14 percent interest rate from Citizens Automobile Finance.

**FINANCIAL ANALYSIS**

Selected Financial Information

		[A] <sup>1</sup> <u>12/31/2008</u>	[B] <sup>2</sup> <u>Pro Forma</u>	[C] <sup>3</sup> <u>Pro Forma</u>
1	Operating Income	\$ 57,295	\$ 57,295	\$ 57,295
2	Depreciation & Amort.	111,500	111,500	111,500
3	Income Tax Expense	0	0	0
4				
5	Interest Expense	0	56,695	57,698
6	Repayment of Principal	0	40,346	42,976
7				
8				
9				
10				
11	<b>DSC</b>			
12	[1+2+3] ÷ [5+6]	N/M <sup>4</sup>	1.74	1.68
13				
14				
15				
16				

<sup>1</sup> Column [A] is based on the test year ended December 31, 2008 Staff's recommended rates in Decision No. 71899.

<sup>2</sup> Column [B] is Column [A] modified to reflect issuance of the \$1,278,238 debt financing amortized for 20 years at 4.50 percent per annum.

<sup>3</sup> Column [C] is Column [B] modified to reflect issuance of the proposed \$15,239 debt financing amortized for 5 years at 7.14 percent per annum.

<sup>4</sup> Not Meaningful

**MEMORANDUM**

DATE: February 5, 2011

TO: Brendan Aladi  
Public Utilities Analyst III

FROM: Dorothy Hains, P. E. DH  
Utilities Engineer

RE: Application of the Estate of William F. Randall d/b/a Valle Verde Water Company for Approval of financing (Docket No. W- 01431A-11-0007) – Compliance filing per Decision No. 71899

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**Introduction and Background Information**

On January 6, 2011, the Estate of William F. Randall d/b/a Valle Verde Water Company ("Valle Verde" or "Company") filed a financing application ("Application") with the Arizona Corporation Commission ("ACC" or "Commission") for approval of a truck loan the company has in place.

Valle Verde is providing water utility service to approximately 800 customers near the City of Nogales, Arizona, in Santa Cruz County. The Commission granted Valle Verde a Certificate of Convenience and Necessity in Decision No. 28887 (April 27, 1955).

Valle Verde is currently owned by the Estate of William F. Randall, who had operated the system for many years prior to his death. Upon Mr. Randall's death, the system fell into financial and operational disarray and became non-compliant with several Arizona Department of Environmental Quality ("ADEQ") Rules.

On August 29, 2007, the Commission issued Decision No. 69882, an Order to Show Cause, ordering Valle Verde to answer allegations concerning the violation of Commission Rules and directing Staff to appoint an interim manager to operate the system. The Commission entered into an agreement with Southwestern Utility Management ("SUM") to act as the interim manager of Valle Verde. SUM has been operating the system as interim manager, pursuant to an agreement with the Commission, since September 2007.

On September 28, 2010, the Commission issued Decision No. 71899, in this Decision the Commission ordered the Company to file a Financing Application with the Commission for approval of the subject truck loan.

### **Engineering Evaluation**

On April 1, 2008, SUM paid \$15,238.19<sup>1</sup> to Watson Chevrolet, Inc (Tucson, Arizona) to purchase a used 2006 Chevrolet 1/2 ton pick-up truck. According to the SUM the truck was purchased in an emergency situation to provide the onsite field technicians a means of travel to perform daily operations within the water system. All previous Company vehicles were owned by employees since these employees are no longer employed by the Company it became imperative to purchase a vehicle on behalf of the Company.

### **SUMMARY**

#### **Conclusions**

1. Staff concludes that the purchase of the truck was appropriate and its purchase price reasonable. However, no "used and useful" determination of the project item was made and no particular treatment should be inferred for rate making or rate base purposes in the future

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<sup>1</sup> Per invoices attached to the Company's application.

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The Estate of William F. Randall dba  
Valle Verde Water Company  
PO Box 85160  
Tucson, Arizona 85754  
520-623-5172  
Fax 520-792-0377

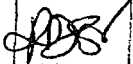
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Arizona Corporation Commission  
**DOCKETED**

JAN 14 2011

January 13, 2011

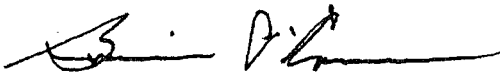
Arizona Corporation Commission  
Docket Control Center  
Compliance Section  
1200 W. Washington  
Phoenix, Arizona 85007

DOCKETED BY	
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Re: Valle Verde Water Company, Docket #W-01431A-11-0007 – Affidavit of Publication

Please find enclosed the affidavit of publication in regard to the above noted docket number

Regards,



Bonnie O'Connor, Interim Manager

Docket #W-01431A-11-0007

**AFFIDAVIT OF PUBLICATION**

STATE OF ARIZONA )

ELISA BERMUDEZ

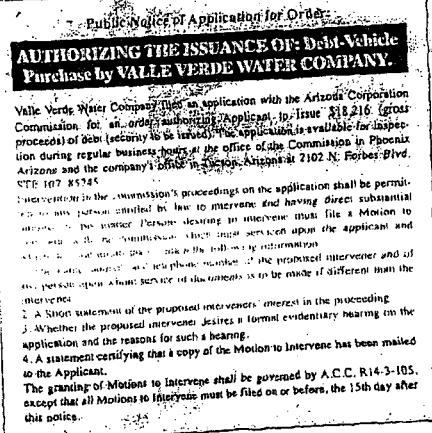
COUNTY OF SANTA CRUZ )

: SS

*Elisa Bermudez*

being first

Duly sworn, deposes and says: That (he) (she) is the Agent to the Publisher of the NOGALES INTERNATIONAL newspaper printed and published two days week in the City of Nogales, County of Santa Cruz, State of Arizona. That the notice, a copy of which is hereto attached, described as follows:



**APPLICATION FOR ORDER: AUTHORIZING THE ISSUANCE OF: DEBT-VEHICLE PURCHASE BY VALLE VERDE WATER COMPANY**

was printed and published in the regular and entire issue of said

NOGALES INTERNATIONAL for 1 issues, that the first was

made on the 7th day of JANUARY 2011

and the last publication thereof was made on the 7th day of

JANUARY 20 11 that said publication

was made on each of the following dates, to wit:

01/07/11

Request of

SOUTHWESTERN UTILTY C/O VALLE VERDE WATER

**NOGALES INTERNATIONAL**

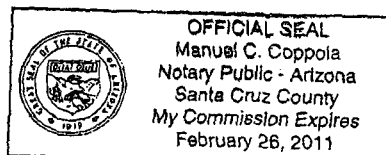
268 W VIEW POINT, NOGALES, AZ 85621 (520)375-5760

By

*Manuel C. Coppola*

Subscribed sworn to before me this 7th day of JANUARY

20 11



Notary Public in and for the County of Santa Cruz, State of Arizona

My Commission Expires:

2/26/11